

RALPH S. MICHAEL

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1 THE WITNESS: It could.  
 2 MR. COGAN: Okay.  
 3 Q. And then finally, you'll notice that the  
 4 next sentence says, "The restricted fund balance at  
 5 1/31/96 is \$136.8 million of which \$30 million is  
 6 designated for the Obligated Group's debt service."  
 7 A. Yes.  
 8 Q. Would that be a mitigating factor?  
 9 A. Yes.  
 10 MR. TERUYA: Objection.  
 11 THE WITNESS: Strong mitigant there.  
 12 MR. COGAN: Okay.  
 13 Q. You can put that exhibit aside now  
 14 Mr. Michael. Just a couple more questions.  
 15 In your experience has it ever been the  
 16 case that you have ignored a covenant violation when  
 17 the covenant violation has been brought to your  
 18 attention?  
 19 A. Not that I can ever recall.  
 20 Q. Can you recall any such instance where PNC,  
 21 upon learning of a covenant violation, simply ignored  
 22 that violation?  
 23 A. Not -- not consciously.  
 24 Q. Would I be correct that typically once you  
 25 become aware -- you, I'm speaking generically about

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1 PNC --  
 2 A. Yes.  
 3 Q. -- become aware of policy, or, excuse me,  
 4 of a covenant violation, that that triggers an  
 5 analysis as to what PNC should do in the face of that  
 6 covenant violation?  
 7 A. Yes.  
 8 MR. TERUYA: Objection.  
 9 BY MR. COGAN:  
 10 Q. And am I correct from your testimony to  
 11 understand that the circumstances as they exist at  
 12 the time of that covenant violation will dictate in  
 13 many respects what action PNC would ultimately take?  
 14 A. Yes.  
 15 Q. Okay.  
 16 Finally, Mr. Michael, you indicated that  
 17 you were sitting on was it three corporate boards?  
 18 A. Yes.  
 19 Q. I'm just sort of curious. What boards were  
 20 you sitting on?  
 21 A. Board of Ohio Casualty Corporation, Key  
 22 Energy Services, Inc., and Integrated Alarm Services  
 23 Group.  
 24 Q. And I think you also said you served on at  
 25 least two audit committees?

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1 A. Yes. I chair the audit committees at Key  
 2 Energy and Integrated Alarm Services, and I'm on the  
 3 audit committee and chair the finance committee at  
 4 Ohio Casualty.  
 5 Q. As a member of those audit committees, has  
 6 it been your expectation that if the company's  
 7 accountants became aware of material misstatements in  
 8 financial statements, that they would bring that to  
 9 your attention as a member of audit committee?  
 10 A. It's a requirement.  
 11 Q. And similarly, if the auditors became aware  
 12 of any internal control deficiencies, that they would  
 13 bring that to your attention?  
 14 A. Absolutely. It's a requirement, and  
 15 currently a requirement under Sarbanes-Oxley Act 404.  
 16 Q. And if the auditors had concerns with the  
 17 integrity of management, would that likewise be a  
 18 fact that you would expect the auditors to bring to  
 19 your attention?  
 20 A. Yes.  
 21 Q. And would that have been true back -- based  
 22 on your experience back in the period of time 1996  
 23 and 1997 that your expectation would be that auditors  
 24 would bring those sorts of facts to your attention?  
 25 MR. TERUYA: Objection.

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1 THE WITNESS: The rules were different at  
 2 that time with respect to the codification of  
 3 behavior. Sarbanes-Oxley wasn't passed, and it  
 4 wasn't enacted at the time. But my expectation would  
 5 be that issues of internal control would be, if not  
 6 taken directly to the audit committee, you know,  
 7 would be presented to the audit committee in the  
 8 annual management letter.  
 9 BY MR. COGAN:  
 10 Q. And the management letter is the letter  
 11 from the accountants?  
 12 A. Yes. From the accountants to the -- to  
 13 management and copied to the audit committee and, in  
 14 many cases, to the Board.  
 15 Q. Have you had occasion in your experience  
 16 sitting on the audit committee to invite the auditors  
 17 into executive session?  
 18 A. At every meeting.  
 19 Q. And just for the benefit of people who may  
 20 some day watch this tape and not know what an  
 21 executive session means, can you explain that to me?  
 22 A. An executive session is a portion of the  
 23 meeting where management is excused from the room,  
 24 and the meeting is strictly between the Board and the  
 25 audit committee. I'm sorry. The Board and the --

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**Miller Dep.**

**In The Matter Of:**

*AHERF v.  
PRICEWATERHOUSECOOPERS LLP*

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*LESLIE ANN MILLER  
May 17, 2004*

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**MILLER, LESLIE ANN - Vol. 1**



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1 times as similar to a rotten onion. The more we peeled away  
 2 the layers, the more rotten the core appeared.  
 3 It was a financial nightmare, as I recall.  
 4 And, again, my memory is fuzzy, but it was certainly about  
 5 that time that you could start to pinpoint real financial  
 6 difficulties. I remember specifically that Sherif had  
 7 announced a hope to acquire the Cooper Medical System in New  
 8 Jersey shortly after Hahnemann and those plans had to be put  
 9 on hold because of finances.  
 10 Q You were a member of the AHERF board of  
 11 trustees when the Hahnemann acquisition was done?  
 12 A Yes, and I was a member of the negotiating team  
 13 both times. There was a small team of us from AHERF that met  
 14 with a small group from Hahnemann.  
 15 Q The first time, the time that it didn't happen,  
 16 why didn't it happen at that time?  
 17 MS. MEADEN: Objection; foundation.  
 18 A Inability to come to mutually agreeable terms  
 19 and I think real concern ultimately about the financial  
 20 stability of Hahnemann as well. No, I take that back. It  
 21 wasn't so much I think financial concerns as it really was  
 22 governance concerns.  
 23 BY MR. FRIESEN:  
 24 Q By governance concerns, do you mean the  
 25 difficulties of integrating two totally different medical

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1 schools at different physical locations?  
 2 A Well, that certainly, but also with it the  
 3 integration of two strong boards.  
 4 Q And then how long after that did you become a  
 5 member of the negotiating committee for the second time?  
 6 A I think it was within about two years.  
 7 Q And were the governance concerns that you had  
 8 the first time, did they go away in the intervening two years?  
 9 A No. And certainly I remember a very big battle  
 10 with Sherif that continued until after the meeting when he  
 11 chastised me for questioning his motives over the ongoing name  
 12 and identity of the institution.  
 13 Q Had you questioned his motives?  
 14 A Yes. Sure.  
 15 Q And can you remember -- this was at an AHERF  
 16 board meeting?  
 17 A I honestly don't remember exactly. I remember  
 18 it was centered around promises that he -- or representations  
 19 that he had made about the name and the configuration of the  
 20 board.  
 21 Q Let's start with the name. What can you  
 22 remember about what he thought the name should be and what you  
 23 thought the name should be?  
 24 A I don't remember what -- I can't speak as to  
 25 what he thought, but the ongoing concern was that the

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1 Hahnemann name would take precedence over the Medical College  
 2 of Pennsylvania name or that there would be some ridiculous  
 3 configuration, the possibilities of which were endless if you  
 4 just let your mind wander.  
 5 Q And that was a concern that you had?  
 6 A Yes, sure. And certainly not that I alone had.  
 7 It was the board and the faculty, particularly the  
 8 long-standing members of the faculty.  
 9 Q Because MCP had been known and respected as MCP  
 10 for a long time?  
 11 A Yes. And, frankly, there was a certain elitism  
 12 among the Medical College of Pennsylvania vis-a-vis the  
 13 caliber of its medical education and its hospital. Hahnemann  
 14 did not enjoy a particularly strong reputation for either  
 15 medical educators or hospitals. It was not a hospital that  
 16 someone would go to by choice.  
 17 Q So the ultimate name of MCP-Hahnemann is  
 18 something that Mr. Abdelhak wanted?  
 19 MS. MEADEN: Objection.  
 20 A Well, no, I don't think it was something --  
 21 again, I can't speak for himself. I mean it was -- some kind  
 22 of compromise was necessary.  
 23 BY MR. FRIESEN:  
 24 Q So you had this discussion about the name first  
 25 at the meeting, at a board meeting?

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1 A There were ongoing discussions around that  
 2 time, yes.  
 3 Q And then Mr. Abdelhak chastised you after the  
 4 board meeting?  
 5 A Again, this is all very fuzzy recollection, but  
 6 yes, I remember.  
 7 Q Do you recall what it was that set him off?  
 8 A No, I do not.  
 9 Q And do you recall what he said to you after the  
 10 meeting?  
 11 A No, no. Just very unhappy with my challenging  
 12 him or suggesting that -- just with my challenging him.  
 13 Strike that last part.  
 14 Q And what was your reaction when you received  
 15 this chastising?  
 16 A Duly noted, move along. It was certainly not  
 17 anything new. And Sherif and I enjoyed a healthy sparring  
 18 relationship throughout my tenure. I mean he knew that I was  
 19 going to be an ongoing bur in his saddle, a polite one, and I  
 20 think that he ultimately respected me. My positions were not  
 21 irresponsible or ill conceived, and I think the fact that he  
 22 not only kept me on the board but put me in positions of  
 23 responsibility demonstrated that, but he knew that I was not a  
 24 yes person. But we battled regularly.  
 25 Q Did you observe Mr. Abdelhak intimidating other

8 (Pages 26 to 29)

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1 members of the board?

2 MS. MEADEN: Objection.

3 A Well, I'm not sure that I'd use the word  
4 "intimidate," but I mean clearly there were different, quote,  
5 classes of members of the board.

6 BY MR. FRIESEN:

7 Q Tell me about that.

8 A Well, there were employees. There were members  
9 of the medical faculty who were dependant upon Sherif for  
10 their continuing livelihood who wished to continue to be a  
11 part of that system. He was their boss. So, obviously, they  
12 didn't enjoy the independence that I, as a totally untethered  
13 board member, did.

14 And as with any board, there were a certain  
15 number of sycophants who seemed to think that by toeing the  
16 Abdelhak line they might advance themselves or their own  
17 respective positions, and so there was less of a tendency on  
18 the part of them to question.

19 And, again, Sherif was a very powerful  
20 personality. He was very smart, very skilled, and he had the  
21 ability I think to lull a lot of people into a false sense of  
22 security.

23 Q And you thought that at the time?

24 A I thought that continuously, yes. And to his  
25 credit, there certainly was a period of time when the

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1 Allegheny Health System certainly in the Philadelphia area was  
2 the system by which all others were being measured. You need  
3 only look to the hospital of the University of Pennsylvania  
4 and the financial crisis that it fell into to find a perfect  
5 example. Bill Kelly, in his zeal to keep pace with Sherif's  
6 acquisition of practices, put that system into the red, you  
7 know, a big red hole.

8 Q And this was the gentleman from Penn?

9 A Yes, this was the CEO of Penn.

10 Q Specifically relating to the strategy to expand  
11 AHERF with the hospital acquisitions and physician practice  
12 acquisitions, that strategy, do you recall, other than perhaps  
13 yourself -- and you can tell me if you would be included in  
14 this group -- do you recall any trustees really challenging  
15 Mr. Abdelhak on that direction, on that strategy?

16 A Certainly there were others. I was by no means  
17 alone.

18 Q Do you recall any specific people?

19 A Other than the ones that I've already pointed  
20 to on this list, no. Again, that doesn't mean that there  
21 weren't others.

22 Q Did you ultimately agree with the strategy or  
23 did you just -- essentially, were you outvoted?

24 MS. MEADEN: Objection.

25 A Well, for a time it was hard not to agree,

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1 because from all outward appearances the strategy was very  
2 successful. So, you know, I certainly had no objective reason  
3 not to agree, again, based upon the information that was  
4 disseminated to the board.

5 But, again, I point to the acquisition of  
6 Graduate as a time that I think the concerns of many of us  
7 rose to the surface again, because we had enough information,  
8 enough financial information to realize that all was not as  
9 rosy as we had hoped, but not enough to comprehend the depth  
10 and breadth of the problem.

11 BY MR. FRIESEN:

12 Q And that testimony just now, you're referring  
13 to prior to the Graduate acquisition being approved?

14 A Yes, and continuing afterwards.

15 Q How did you find out about the Graduate  
16 acquisition, do you recall?

17 A Well, again, it would have been through some  
18 type of communication from Sherif to the board. Again, it was  
19 no surprise, because Harold Cramer, who was then the CEO of  
20 Graduate, had made numerous overtures to Sherif about some  
21 kind of a merger or partnership or whatever, and, as I recall,  
22 he had been turned down a number of times.

23 (1994 trustees' evaluation marked as Exhibit  
24 Number 2574.)

25 BY MR. FRIESEN:

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1 Q Let me mark an exhibit as Exhibit 2574. This  
2 is a document Bates numbered PR-PLD-020-02184 through 89 and  
3 it says trustees' evaluation on the top. Now this document  
4 does not have a date on it, but I will represent to you that  
5 it comes from a stack of trustees' evaluations with a tab on  
6 top of it saying 1994 trustees' evaluations. Is that your  
7 signature on the last page?

8 A Yes, I recognize my writing. Yes, sure is.

9 Q And this is your handwriting on the form?

10 A Yes, it is.

11 Q Do you recall filling out this form?

12 A Not specifically.

13 Q You have no doubt that you did?

14 A No, I have no reason to disagree nor with any  
15 of the contents of it.

16 Q If you go to the page, the second page, 2185.

17 A Yes.

18 Q The question is: "Do you have any specific  
19 comments or suggestions about the number of board and  
20 committee meetings or the length of meetings?" Could you read  
21 what you wrote there?

22 A "It would be helpful if some time could be  
23 built in to bond with other board members."

24 MR. MILLER: Too fast.

25 A I'm sorry. "It would be most helpful if



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1 ultimately sickened by Sherif. I think that's a pretty vague  
2 but fair description of the nature of the discussions that we  
3 would have had.

4 Walter had been a prodigious fund-raiser for  
5 the institution, so he probably more than many was devastated  
6 by the invasion of the endowment, because he had been largely  
7 responsible for the growth of that during his tenure, not the  
8 least of which was the dedication of a specific endowment in  
9 honor of his late wife, Betty, which I think grew to seven  
10 figures very quickly. And so he was twice invested in that  
11 tragic outcome.

12 MR. FRIESEN: Why don't we take another quick  
13 break and I think I may be done very quickly if I have a  
14 chance to just look at my notes again.

15 THE VIDEO OPERATOR: We are now going off  
16 camera. The time is 1:23.

17 (Recess.)

18 THE VIDEO OPERATOR: We are now back on camera.  
19 The time is 1:28.

20 BY MR. FRIESEN:

21 Q Just a few more questions. The physician  
22 practice acquisitions, do you recall learning how they were  
23 doing financially after they'd been acquired? Was that  
24 something that you were kept apprised of?

25 A I have no specific recollection.

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1 Q You don't know one way or the other whether  
2 they are doing well or not doing well?

3 A I beg your pardon. No, I don't.

4 Q Prior to the deposition today, did you meet  
5 with Ms. Meaden or anyone else from Jones Day about the  
6 deposition?

7 A No, I did not have the pleasure.

8 Q Did you talk to any of them on the phone?

9 A No.

10 Q And we've never met?

11 A No, we have not.

12 MR. FRIESEN: That is all I have, subject to a  
13 few more questions once Ms. Meaden is finished.

14 A Thank you very much.

15 MR. FRIESEN: Thank you for coming in.

16  
17 CROSS-EXAMINATION

18  
19 BY MS. MEADEN:

20 Q Ms. Miller, I introduced myself earlier, but I  
21 am Laura Meaden and I represent the plaintiff, the Official  
22 Committee of Unsecured Creditors of AHERF, in this action, and  
23 you will be pleased to know that I have considerably fewer  
24 questions for you than Mr. Friesen had today.

25 MR. MILLER: Excuse me, off the record.

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1 (Discussion held off the record.)

2 (Letter dated November 26, 1996 marked as  
3 Exhibit Number 2576.)

4 BY MS. MEADEN:

5 Q I wanted to ask you and try and pinpoint with a  
6 little bit more preciseness the date of your resignation from  
7 the AHERF board and its affiliate boards, so I'm going to ask  
8 the court reporter to mark a letter that I have here dated  
9 November 26th, 1996 to you from Sherif Abdelhak, and we will  
10 mark this as Exhibit 2576.

11 A Okay.

12 Q The letter begins: "Dear Leslie: It is with  
13 regret that I accept your resignation from the Boards Of  
14 Trustees of Allegheny University of the Health Sciences and  
15 Allegheny Health, Education and Research Foundation," and it  
16 goes on from there. But, as I said earlier, this letter is  
17 dated November 26th, 1996. Does this help refresh your  
18 recollection as to perhaps what month in 1996 you resigned  
19 from those boards?

20 A It would suggest that it was November.

21 Q Do you recall what period of time elapsed  
22 between the time you tendered your resignation and receiving  
23 this letter from Mr. Abdelhak?

24 A I honestly do not. I am sorry.

25 Q You can put that aside. That's all the

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1 questions I have on that document. Now, you were a volunteer  
2 trustee on all of the boards on which you served within the  
3 AHERF system; correct?

4 A Yes.

5 Q And so that was not a full-time job for you to  
6 be a trustee of those organizations; correct?

7 A No.

8 Q And certainly you couldn't give that job the  
9 effort that you otherwise gave to your full-time job; correct?

10 A No.

11 Q But during your entire tenure, I assume that  
12 you exercised your fiduciary duty in the best possible way  
13 that you could; correct?

14 A I certainly attempted to.

15 Q And can you tell me what you viewed your role  
16 as a trustee as?

17 A One of oversight of management, and by that I  
18 don't mean micromanaging, but certainly to review on an  
19 ongoing basis the decisions of management vis-a-vis the  
20 institutions for which they were responsible.

21 Q And you were assisted in discharging your  
22 fiduciary duties in that role by outside professionals,  
23 weren't you?

24 MR. FRIESEN: Objection.

25 A What do you mean by outside professionals?

17 (Pages 62 to 65)

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1 BY MS. MEADEN:

2 Q Well, certainly there were outside auditors  
3 that assisted the board in the financial, reviewing the  
4 financial affairs of the institution; correct?

5 MR. FRIESEN: Objection.

6 A I do not recall, quite honestly, whether we  
7 relied on external auditors or not.

8 BY MS. MEADEN:

9 Q You have no recollection of whether AHERF had  
10 any independent auditors during your tenure as a member of the  
11 AHERF board?

12 A No, I do not, honestly.

13 Q If I told you that Coopers and Lybrand were the  
14 outside auditors during the 1990s time period at least, would  
15 that refresh your recollection at all?

16 A Honestly, no.

17 Q And you don't recall reviewing audited  
18 financial statements then during your tenure as a member of  
19 the AHERF parent board?

20 A No, I do not.

21 Q At any time during your tenure on the AHERF  
22 board, do you ever recall receiving any information that any  
23 of the information contained in AHERF's financial statements,  
24 whether they be internal or audited, was in any way  
25 inaccurate?

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1 A When you say received information.

2 Q Yes, either in writing or verbally.

3 A Well, as I suggested in my responses to  
4 Mr. Friesen's questions, there were I think it fair to say  
5 regular expressions of concern about the adequacy of the  
6 financial information that was provided to the trustees to  
7 perform their oversight responsibility.

8 Q When you say adequacy, are you talking about  
9 the completeness?

10 A Yes.

11 Q The volume of information?

12 A Completeness.

13 Q But do you ever recall being told by anyone  
14 that the information you were receiving was inaccurate?

15 A No, I do not.

16 Q Were you familiar with the audit committee of  
17 the AHERF board?

18 A No. I mean I knew one existed, but...

19 Q You never served on it?

20 A No.

21 Q Did you have any understanding of what the role  
22 of the audit committee was during your tenure on the AHERF  
23 board?

24 A Well, it was a more focused form of the overall  
25 oversight responsibility of the board, specifically to review

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1 the ongoing audits of the financials of the institution.

2 Q I guess what I'm trying to get at is were you  
3 aware when you were on the board that the financial statements  
4 were being audited?

5 A No. You know, I take that back. I don't  
6 remember. I can't imagine that I wouldn't have been, but I  
7 don't have any specific recollection.

8 Q And you have no recollection of audited  
9 financial statements being presented to the board for the  
10 board's approval at any time during your tenure?

11 A I don't specifically recollect it, but if you  
12 were to tell me that they would, I wouldn't disagree with you.

13 Q Have you ever served on the audit committee of  
14 any other organization of which you've been a member of the  
15 board?

16 A No, I have not.

17 Q Do you ever recall hearing at any time during  
18 your tenure on the AHERF board that any financial statements  
19 of AHERF did not receive a clean opinion from outside  
20 auditors?

21 A No, I did not.

22 Q Do you have any understanding of what the term  
23 "clean opinion" is with respect to financial statements?

24 A Only a very basic one.

25 Q Why don't you tell me what that is.

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1 A I presume that they had questions about the  
2 accuracy of those reports.

3 Q I'm sorry, that would be a clean opinion or  
4 that would not be a clean opinion?

5 A That would be a dirty opinion, I guess.

6 Q Okay.

7 A Soiled. See why they never put me on an audit  
8 committee, off the record.

9 Q Based on your experience as a professional and  
10 based on your experience on other boards and the AHERF board,  
11 do you or did you have any expectation as to the types of  
12 things that outside auditors would bring to the attention of  
13 the board of directors?

14 MR. FRIESEN: Objection; lack of foundation.

15 A At that point in time?

16 BY MS. MEADEN:

17 Q Yes.

18 A Honestly, no.

19 Q You had testified earlier that you didn't have  
20 enough information to know how bad the situation at AHERF was  
21 becoming, and I think you testified that that was some time  
22 prior to talk of the acquisition of Graduate; is that correct?

23 A I'm not sure whether it was prior to or  
24 contemporaneously with, at or about that time.

25 Q The Graduate, talk of the Graduate acquisition?

18 (Pages 66 to 69)

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1 A Yes, yes, yes. And when I say -- never mind,  
 2 go ahead.  
 3 Q Well, that's what I'm going to ask you, what  
 4 you meant by that statement. Were you talking about the  
 5 financial condition --  
 6 A Yes.  
 7 Q -- of the entity?  
 8 A And about the extent of, the increasing amount  
 9 of debt that the system was taking on in contrast to assets.  
 10 Certainly we were aware and concerned about the very rapid  
 11 acquisition of practices and systems by Allegheny, but we had  
 12 been led to believe that there was not only justifica --  
 13 strategic justification for doing so, but also financial  
 14 justification.  
 15 And it was, as I said, at or about the time of  
 16 the Graduate -- well, it was not an acquisition at the time,  
 17 because, as we know, it didn't take place for a while, but at  
 18 the time that Graduate was under consideration that it first  
 19 became clear that all was not as rosy as it may have seemed.  
 20 And one of the reasons for this is because  
 21 simultaneously with the consideration of Graduate was the  
 22 consideration of the Cooper Medical System, the strategy  
 23 always being that, again, for dominance in the southeastern  
 24 region we had to have a presence in southern New Jersey,  
 25 which, as you know, is right across the river from

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1 Philadelphia.  
 2 And when we heard that Sherif had to cancel  
 3 consideration of the Cooper System, I think it was a red flag  
 4 for all of us, because it had not been characteristic of him  
 5 to set out on a, quote, conquest only to retreat.  
 6 Q To put some parameters on this, when you talk  
 7 about consideration of the Graduate acquisition, are you  
 8 talking about the August-September 1996 time period?  
 9 A Yes. I was going to say early '96. As I said  
 10 before, Graduate, consideration of the Graduate system was not  
 11 new in 1996. It was a topic that had been under discussion  
 12 for almost the entire Allegheny -- the entire time that  
 13 Allegheny controlled the system. I think shortly after the  
 14 merger Harold Cramer sought out Sherif to begin discussions.  
 15 Q But your specific discussion with respect to  
 16 concerns about the financial condition of AHERF, you were  
 17 talking about the fall-summer of 1996?  
 18 MR. FRIESEN: Objection.  
 19 A No, I'm talking about all of 1996.  
 20 BY MS. MEADEN:  
 21 Q You said you were led to believe that the  
 22 Graduate acquisition had a strategic and a financial  
 23 justification. By whom were you led to believe that?  
 24 A By Mr. Abdelhak.  
 25 Q AHERF management?

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1 A Yes.  
 2 Q Did you ever receive any information from  
 3 AHERF's outside auditors that acquiring the Graduate Health  
 4 System could threaten the continued viability of the AHERF  
 5 system?  
 6 MR. FRIESEN: Objection.  
 7 A I personally did not, no.  
 8 BY MS. MEADEN:  
 9 Q Are you aware of anyone else on the AHERF board  
 10 who heard such a thing?  
 11 A No.  
 12 Q The Cooper Medical System that you were talking  
 13 about, can you tell me exactly how Mr. Abdelhak conveyed to  
 14 you or other members of the board, I'm not quite sure in what  
 15 context he conveyed this, but that he was not going through  
 16 with the Cooper acquisition?  
 17 A It was never formally conveyed, because, to the  
 18 best of my recollection, he never had formal authorization to  
 19 pursue it, which would not have been out of the ordinary,  
 20 because it was characteristic of him to bring propositions to  
 21 the table, if you will. So through the grapevine, we knew  
 22 that it was under consideration by management, and through  
 23 that same grapevine we heard that it was off the table.  
 24 Q I'm trying to understand.  
 25 A It was never a subject of board discussion,

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1 formal board discussion.  
 2 Q The grapevine that you're referring to, did  
 3 that include members of AHERF's staff or management?  
 4 A I honestly can't tell you. Just...  
 5 Q Or whether they were community rumors? You  
 6 just don't recall?  
 7 A No.  
 8 Q And the reason that you heard through the  
 9 grapevine that he wasn't going through with the Cooper  
 10 acquisition was because of what?  
 11 A I remember it was in the context of doing the  
 12 due diligence on Graduate. Apparently when the reality of the  
 13 extent of the Graduate debt came to the surface, obviously,  
 14 there had to be an adjustment made.  
 15 Q But you don't recall anything more specific  
 16 about that then?  
 17 A No, I do not. There was certainly no formal  
 18 board action.  
 19 Q I take it from your earlier testimony that if  
 20 issues were brought to your attention that you had concerns  
 21 about, you didn't hesitate to raise those, any questions that  
 22 you had with Mr. Abdelhak within the context of a board  
 23 meeting or otherwise; correct?  
 24 MR. FRIESEN: Objection.  
 25 A Correct.

19 (Pages 70 to 73)



LESLIE ANN MILLER

<p style="text-align: right;">Page 74</p> <p>1 BY MS. MEADEN:</p> <p>2 Q If information had been brought to your</p> <p>3 attention by AHERF's outside auditors that the acquisition</p> <p>4 strategy that AHERF was engaged in threatened the viability of</p> <p>5 the system going forward, would that have caused you concern?</p> <p>6 MR. FRIESEN: Objection. When?</p> <p>7 A Indeed.</p> <p>8 MS. MEADEN: During her tenure as a member of</p> <p>9 the board.</p> <p>10 A Sure.</p> <p>11 BY MS. MEADEN:</p> <p>12 Q And do you believe that you would have wanted</p> <p>13 an investigation to have been conducted into the basis of</p> <p>14 those statements by the outside auditors --</p> <p>15 MR. FRIESEN: Objection.</p> <p>16 BY MS. MEADEN:</p> <p>17 Q -- and their reasons for believing that the</p> <p>18 acquisition strategy would threaten the viability of the</p> <p>19 system?</p> <p>20 MR. FRIESEN: Objection.</p> <p>21 A I certainly hope that I would have.</p> <p>22 BY MS. MEADEN:</p> <p>23 Q It's something you would not have ignored had</p> <p>24 you heard that; correct?</p> <p>25 MR. FRIESEN: Objection.</p>	<p style="text-align: right;">Page 76</p> <p>(The deposition was concluded at 1:47 p.m. )</p>
<p style="text-align: right;">Page 75</p> <p>1 A I can't imagine that I would have, no.</p> <p>2 BY MS. MEADEN:</p> <p>3 Q You had mentioned earlier that you ran into</p> <p>4 Mr. Cook sometime after the bankruptcy was filed and asked him</p> <p>5 didn't you have any idea what was going on. I don't think you</p> <p>6 told us what his response to that question was.</p> <p>7 A Essentially it was a response that he didn't,</p> <p>8 didn't know.</p> <p>9 Q Do you recall --</p> <p>10 A No way of knowing. Again, it was the age</p> <p>11 old...</p> <p>12 Q Didn't have enough financial --</p> <p>13 A Didn't have enough financial information to be</p> <p>14 able to tell.</p> <p>15 Q Do you recall if Mr. Cook ever sat on the audit</p> <p>16 committee of AHERF?</p> <p>17 A No, I do not.</p> <p>18 MS. MEADEN: I don't believe I have any further</p> <p>19 questions pending what Mr. Friesen may ask you now.</p> <p>20 MR. FRIESEN: I'm not going to ask you</p> <p>21 anything.</p> <p>22 A Thank you very much.</p> <p>23 MR. FRIESEN: Thanks very much.</p> <p>24 THE VIDEO OPERATOR: This deposition is now</p> <p>25 concluded. The time is 1:47.</p>	<p style="text-align: right;">Page 77</p> <p>1 STATE OF PENNSYLVANIA:</p> <p style="text-align: center;">: ss</p> <p>2 COUNTY OF DAUPHIN :</p> <p>3 I, Sherry Bryant, a Reporter Notary-Public,</p> <p>4 authorized to administer oaths within and for the Commonwealth</p> <p>5 of Pennsylvania and take depositions in the trial of causes,</p> <p>6 do hereby certify that the foregoing is the testimony of</p> <p>7 LESLIE ANNE MILLER.</p> <p>8 I further certify that before the taking of</p> <p>9 said deposition, the witness was duly sworn; that the</p> <p>10 questions and answers were taken down stenographically by the</p> <p>11 said reporter Sherry Bryant, a Reporter Notary-Public,</p> <p>12 approved and agreed to, and afterwards reduced to typewriting</p> <p>13 under the direction of the said Reporter.</p> <p>14 I further certify that the proceedings and</p> <p>15 evidence contained fully and accurately in the notes by me on</p> <p>16 the within deposition, and that this copy is a correct</p> <p>17 transcript of the same.</p> <p>18 In testimony whereof, I have hereunto</p> <p>19 subscribed my hand this 18th day of May 2004.</p> <p>20</p> <p>21</p> <p>22 Sherry Bryant, RMR, CRR</p> <p>23 My commission expires:</p> <p>24 December 13, 2005</p> <p>25</p>

20 (Pages 74 to 77)

**Morrison Dep.**

**In The Matter Of:**

***AHERF v.  
PRICEWATERHOUSECOOPERS***

---

***CHARLES MORRISON***  
***May 14, 2003***

---

***LEGALINK MANHATTAN***  
***420 Lexington Avenue - Suite 2108***  
***New York, NY 10170***  
***PH: 212-557-7400 / FAX: 212-692-9171***

**MORRISON, CHARLES**



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1 only referring to the due diligence reserves.  
 2 Q. Let me hand you, Mr. Morrison, what has  
 3 previously been marked as Exhibit 35. Do you  
 4 recognize this document?  
 5 A. Yes. It's a memo from Dan Cancelmi to me  
 6 regarding intangible assets on the Graduate  
 7 entities.  
 8 Q. And one of the intangible assets on the  
 9 Graduate entities that Mr. Cancelmi lists  
 10 here on the schedule -- I'm referring to the  
 11 second row -- is bad debt reserves for DVAR?  
 12 A. Yes.  
 13 Q. That's in the amount of \$50 million?  
 14 A. Yes.  
 15 Q. Was it your understanding when you received  
 16 this memo that was a reference to what we've  
 17 been calling \$50 million reserve transfer?  
 18 A. Yes.  
 19 Q. Are you familiar with any of the familiar  
 20 intangible assets that were capitalized in  
 21 the Graduate entities listed on this schedule  
 22 Exhibit 35?  
 23 A. The estimated loss on disposal of Mt. Sinai  
 24 I'm generally familiar with. It was an  
 25 estimate of what the shutdown costs

1 Q. Were you involved at all in what is known as  
 2 the HSI Technology?  
 3 A. No.  
 4 Q. Were you familiar with what was called the 4G  
 5 System?  
 6 A. I'm aware of it, yes.  
 7 Q. What was the 4G System?  
 8 A. It was a piece of software that was being  
 9 developed. I don't actually even recall what  
 10 the software was designed to do, but I'm  
 11 aware that it was a piece of software that  
 12 was being developed within the Graduate  
 13 organization in some fashion that Graduate  
 14 had made some investment in.  
 15 Q. Does HSI stand for Health System  
 16 International?  
 17 A. That's my understanding, yes.  
 18 Q. Were you aware of the fact that AHERF had  
 19 purchased the 4G software program from Health  
 20 System International?  
 21 A. I don't have any specific knowledge of that.  
 22 I believe in the course of conversations in  
 23 the hallway I was aware that was the case,  
 24 yes.  
 25 Q. And who at AHERF was involved with that, to

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1 associated and the carrying costs associated  
 2 with the closure of that facility.  
 3 Q. Did you play a role in coming up with the  
 4 \$5,046,000 estimate?  
 5 A. I think my staff provided support to that  
 6 effort, yes.  
 7 Q. To the best of your knowledge, was that a  
 8 good estimate of the estimated loss on  
 9 disposal of Mt. Sinai?  
 10 A. I have no reason to think otherwise.  
 11 Q. I interrupted you. Are there other  
 12 intangible assets with which you're familiar?  
 13 A. The topics, I'm familiar with how the amounts  
 14 were determined, and what their probability  
 15 of exposure are I am not familiar with.  
 16 Q. Which other topics were you familiar with?  
 17 A. The SSMOB was a medical office building.  
 18 Q. That was known as The Church?  
 19 A. I thought it was a medical office building  
 20 associated with Parkview Hospital.  
 21 Q. Okay.  
 22 A. The estimated loss on disposal of Zurbrugg  
 23 facility is an issue I'm aware of. I'm not  
 24 familiar with the amount. Those are the ones  
 25 that I have recollection of.

1 the best of your knowledge?  
 2 A. Involved with?  
 3 Q. The purchase of the 4G software program from  
 4 Health System International.  
 5 A. Well, it would have been -- at least as far  
 6 as I know, it would have been part of the due  
 7 diligence process that involved the  
 8 acquisition of all the Graduate entities.  
 9 David McConnell was involved, Dan Kelly was  
 10 involved, the due diligence team, counsel for  
 11 Foley & Lardner.  
 12 Q. Why was Mr. Cancelmi providing you with this  
 13 information about intangible assets on the  
 14 Graduate entities?  
 15 A. As best I recall was information so that we  
 16 were aware of what the items in the balance  
 17 sheet represented, and also I believe it was  
 18 so that we could incorporate the amortization  
 19 into the budgeting process.  
 20 Q. Because you were involved with a Graduate  
 21 budgeting process by this time?  
 22 A. We would have been developing the fiscal  
 23 '98 -- yes, fiscal '98 budgets for the  
 24 Graduate organization.  
 25 Q. Let me hand you, Mr. Morrison, what's

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1 previously been marked as Exhibit 41. Do you  
 2 recognize Exhibit 41?  
 3 A. Yes.  
 4 Q. What is it?  
 5 A. A memo from Dan Cancelmi to me regarding the  
 6 Delaware Valley bad debt reserve shortfall.  
 7 Q. He refers in the column headed Graduate  
 8 Reserves to the \$50 million reserve transfer;  
 9 right?  
 10 A. Yes.  
 11 Q. And he reported to you that without that \$50  
 12 million reserve transfer that DVOG bad debt  
 13 reserve shortfall as of May 31, '97, would  
 14 have been just over \$75 million; right?  
 15 A. Yes.  
 16 Q. So after the \$50 million reserve transfer  
 17 there was still a remaining bad debt reserve  
 18 shortfall at DVOG of just over \$25 million;  
 19 right?  
 20 A. Yes.  
 21 Q. The date of this memo is June 20, '97; right?  
 22 A. Yes.  
 23 Q. Ten days before the end of the fiscal year?  
 24 A. Yes.  
 25 Q. And with one month to go there was a \$25

1 Q. It would have been required by Coopers &  
 2 Lybrand; right?  
 3 A. Generally accepted accounting principles.  
 4 Q. But it was your view, wasn't it, and the view  
 5 of others at AHERF, so far as you knew, that  
 6 the reason AHERF had to do something in June  
 7 '97 to make up the \$25 million bad debt  
 8 reserve shortfall was that otherwise Coopers  
 9 & Lybrand would come in for the year-end  
 10 audit and they would see that there is a  
 11 shortfall; isn't that right?  
 12 MR. COGAN: Objection.  
 13 A. Just to clarify, it wasn't my responsibility  
 14 to do the financial statements. The  
 15 corporate accounting services held that  
 16 responsibility. My view, which is what you  
 17 asked me, is that it would be resolved in the  
 18 course of the year-end financial statements  
 19 preparation and the audit.  
 20 Q. And did you think to yourself at the time  
 21 that the fact that Coopers & Lybrand was  
 22 going to come in and do the year-end audit  
 23 was a reason why AHERF had to do something to  
 24 plug the shortfall?  
 25 A. My recollection is that I expected that the

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1 million shortfall still; right?  
 2 A. That's what the memo says, yes.  
 3 Q. When you received this memo did you know that  
 4 AHERF had to do something in June '97, the  
 5 last month of fiscal year, in order to plug  
 6 the \$25 million shortfall?  
 7 A. My recollection is it was my view that  
 8 whatever shortfall that was out there would  
 9 be resolved in the year-end financial  
 10 statements.  
 11 Q. How did you think it would be resolved from  
 12 the year-end financial statements?  
 13 A. Well, if the reserve transfer of \$50 million  
 14 was a valid number, that would contribute to  
 15 the reduction of the financial statement  
 16 impact. Anything beyond that would have a  
 17 financial statement impact.  
 18 Q. Through bad debt expense?  
 19 A. Yes.  
 20 Q. Why couldn't AHERF just leave a bad debt  
 21 reserve shortfall at the end of the fiscal  
 22 year?  
 23 A. Well, to the extent that we acknowledge that  
 24 the reserve was inadequate, we would be  
 25 required to correct it.

1 year-end financial statements and the Coopers  
 2 audit would resolve the issue, either  
 3 supporting what had been done internally or  
 4 making appropriate adjustments.  
 5 Q. Let me hand you what has previously been  
 6 marked as Exhibit 161. Do you recognize  
 7 Exhibit 164, Mr. Morrison?  
 8 A. I don't have any specific recollection of it.  
 9 I'm copied on the memo.  
 10 Q. It's a July 3, '97 memo from Mr. Cancelmi to  
 11 Mr. Adamczak?  
 12 A. Yes.  
 13 Q. And you, Mr. McConnell, Mr. Dionisio and  
 14 Mr. Snow are all shown as being copied?  
 15 A. Yes.  
 16 Q. If you could turn, please, to the second page  
 17 of the memo. Do you see there that the third  
 18 paragraph refers to the \$50 million transfer  
 19 of Graduate reserves?  
 20 A. Yes.  
 21 Q. And then the fact that there is a \$25 million  
 22 bad debt reserve shortfall still remaining as  
 23 we saw on Exhibit 41?  
 24 A. Yes.  
 25 Q. Do you see Mr. Cancelmi then writes, Since a



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3:30.

- - - -

(The proceedings were recessed at 3:30 p.m.)

- - - -

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1 COMMONWEALTH OF PENNSYLVANIA ) E R R A T A  
 2 COUNTY OF ALLEGHENY ) S H E E T

3 I, CHARLES MORRISON, have read the forgoing  
 4 pages of my deposition given on Wednesday, May 14,  
 5 2003, and wish to make the following, if any,  
 6 amendments, additions, deletions or corrections:

7 Page/Line Should Read Reason for Change  
 8  
 9  
 10  
 11  
 12  
 13  
 14  
 15  
 16  
 17  
 18  
 19

20 In all other respects, the transcript is true and  
 21 correct.

22 CHARLES MORRISON

23 Subscribed and sworn to before me this  
 24 \_\_\_\_\_ day of \_\_\_\_\_, 2003.

25 Notary Public  
 AKF Reference No. Cg75479

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1 COMMONWEALTH OF PENNSYLVANIA ) CERTIFICATE  
 2 COUNTY OF ALLEGHENY ) SS:

3 I, Claire Gross, RDR, a Court Reporter and  
 4 Notary Public in and for the Commonwealth of  
 5 Pennsylvania, do hereby certify that the witness,  
 6 CHARLES MORRISON, was by me first duly sworn to  
 7 testify to the truth; that the forgoing deposition  
 8 was taken at the time and place stated herein; and  
 9 that the said deposition was recorded  
 10 stenographically by me and then reduced to printing  
 11 under my direction, and constitutes a true record of  
 12 the testimony given by said witness.

13 I further certify that the inspection, reading  
 14 and signing of said deposition were NOT waived by  
 15 counsel for the respective parties and by the  
 16 witness.

17 I further certify that I am not a relative or  
 18 employee of any of the parties, or a relative or  
 19 employee of either counsel, and that I am in no way  
 20 interested directly or indirectly in this action.

21 IN WITNESS WHEREOF, I have hereunto set my hand  
 22 and affixed my seal of office this 15th day of May,  
 23 2003.

24 \_\_\_\_\_  
 25 Notary Public

**In The Matter Of:**

*AHERF v.*  
*PRICEWATERHOUSECOOPERS, LLP*

---

**CHARLES P. MORRISON**  
*June 29, 2004*

---

***LEGALINK MANHATTAN***  
***420 Lexington Avenue - Suite 2108***  
***New York, NY 10170***  
***PH: 212-557-7400 / FAX: 212-692-9171***

**MORRISON, CHARLES P. - 30(b)(6)**



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CHARLES P. MORRISON

They would be actions in the Bankruptcy Court, so they would be on the docket of the Bankruptcy Court.

There was an action against Mr. Ambuhack, Mr. McConnell and Mr. Weinstein to recover payments that were made under a KESOP benefit program.

There are actions currently pending against two third-party payers related to receivable recoveries that are in process, and there are I believe a handful of cases related to claims that are pending before the Bankruptcy Court as well.

Q That is whether a claim should be allowed or not?

A Yes.

Q What are the actions against the two third-party payers to which you referred?

A One is -- I take that back. One of them has been settled, that was with -- against Health Partners, a third-party HMO in Philadelphia.

The substance of the case is we engaged a collection agency to evaluate the

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CHARLES P. MORRISON

Q And U.S. Healthcare is now affiliated with the insurance company Aetna, right?

A Yes.

Q Which is a member of the Creditors Committee, right?

A Yes.

Q You referred to preference actions against creditors, and I understand that there is a Bankruptcy Court docket, but it is many thousands of pages long, so it's made it difficult for me to know exactly what might have taken place in the bankruptcy.

Are there any preference actions that come to mind other than the one we have already discussed against the Mellon Bank group that were in a material amount?

A Most of the preference claims were resolved through negotiation with the creditors.

The ones where we couldn't reach a suitable settlement were pursued in litigation.

The most notable one that I can

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CHARLES P. MORRISON

billings that had been rendered to third-party payers and to make an assessment as to whether we were paid all of the amounts that we were entitled to under the contractual arrangements.

They reviewed the accounts, rebilled those accounts where they believed we were underpaid, and the vast majority of those claims were paid in the normal course by the third-party payers.

This case and the one that's pending, the one that's pending is against U.S. Healthcare, relate to payers that for whatever reason have refused to pay us, and so because we believe we are entitled to the money, we have initiated litigation to pursue recovery.

Q Do you know what the amount of recovery was in the action against Health Partners?

A It was \$60,000, I think it was.

Q Do you know what the amount of money at issue is in the action against U.S. Healthcare?

A I believe it is roughly \$180,000 to \$185,000.

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CHARLES P. MORRISON

think of is with United Creditors Alliance, which was a collection agency.

The Bankruptcy Court has rendered a judgment in the amount of \$126,000, \$127,000. The creditors appealed to the Third Circuit.

Q Are there any other parties whom the Chapter 11 Trustee has considered suing in connection with damages caused before the bankruptcy to the Debtors' estates?

MR. FRIEDMAN: Objection. Again, I advise the witness not to divulge any conversations with counsel.

A None that come to mind.

Q The Chapter 11 Trustee has decided not to sue PricewaterhouseCoopers, right?

MR. COGAN: Objection.

MR. FRIEDMAN: Objection.

A As far as I know that's correct, yes.

Q Let me now turn to the bankruptcy plan.

MR. RYAN: Let me mark this

48 (Pages 186 to 189)

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1 CHARLES P. MORRISON  
 2 please as the next exhibit number.  
 3 (The above described document was  
 4 marked Exhibit 2765 for identification as  
 5 of this date.)  
 6 Q You have before you, sir,  
 7 Exhibit 2765?  
 8 A Yes.  
 9 Q That is the second amended  
 10 consolidated liquidating plan of reorganization  
 11 under Chapter 11 of the Bankruptcy Code?  
 12 A Yes.  
 13 Q That's quite a mouthful.  
 14 It's my understanding that what  
 15 this is is the plan by which distributions are  
 16 made to various categories of creditors, is  
 17 that right?  
 18 A Among other provisions, yes.  
 19 Q Let me turn, if you would turn  
 20 with me, please, to Page 15.  
 21 A 15?  
 22 Q Yes, Section 5.4 of the plan.  
 23 A Yes.  
 24 Q This refers to secured claims of  
 25 holders of MBIA/PNC claims?

Page 191

1 CHARLES P. MORRISON  
 2 A Yes.  
 3 Q Is this the provision of the  
 4 plan to which we referred in general terms  
 5 earlier that provides a partial secured claim,  
 6 that is, that grants a secured claim in a  
 7 partial amount of the total claim, to MBIA and  
 8 to PNC Bank?  
 9 A Yes.  
 10 MR. FRIEDMAN: Objection.  
 11 Q Combining the two of them, their  
 12 secured claim is \$50 million?  
 13 A Yes.  
 14 Q The remainder of their claim  
 15 that is unsecured, and that's in the amount of  
 16 \$340.3 million combined?  
 17 A Yes.  
 18 MR. RYAN: Let me mark this two  
 19 page document as Exhibit 2766.  
 20 (The above described document was  
 21 marked Exhibit 2766 for identification as  
 22 of this date.)  
 23 Q Are you familiar, Mr. Morrison,  
 24 with Exhibit 2766?  
 25 A Yes.

1 CHARLES P. MORRISON  
 2 Q Could you describe for us,  
 3 please, what it is?  
 4 A It is a recitation of the  
 5 distributions that have been made to creditors  
 6 since the approval of the plan, the percentage  
 7 recoveries to unsecureds and admin and priority  
 8 claimants, secured, unsecured, admin and  
 9 priority claimants.  
 10 Q The first page of Exhibit 2766  
 11 reflects that the cumulative recovery to date  
 12 for general unsecured claims of non-Centennial  
 13 creditors has been 19.25 percent, is that  
 14 right?  
 15 A For the non-Centennial unsecured  
 16 creditors, yes, that's correct.  
 17 Q And that's beginning with an  
 18 initial amount that was distributed in December  
 19 of 2000 and goes here through a distribution in  
 20 December of 2003, right?  
 21 A Yes.  
 22 Q Now, the recovery of general  
 23 unsecured creditors of Centennial has been less  
 24 than that as shown here in the right column,  
 25 right?

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1 CHARLES P. MORRISON  
 2 A Yes.  
 3 Q Why is it that the Centennial  
 4 creditors are recovering at a lower rate than  
 5 the non-Centennial creditors?  
 6 A In the course of the case it  
 7 became apparent that the assets available  
 8 within the Centennial estate may not have been  
 9 sufficient to cover the administrative costs of  
 10 the estate, let alone the claims of the estate,  
 11 and ultimately the plan established a separate  
 12 class of creditors for those creditors with  
 13 claims against the Centennial hospitals for  
 14 payment on an unsecured basis at 30 percent of  
 15 whatever the recovery rate for the general  
 16 unsecured creditors were.  
 17 Q That's because there were fewer  
 18 assets for that Debtor than for the other  
 19 Debtors?  
 20 A Yes.  
 21 Q The creditors for the other four  
 22 Debtors had their claims all consolidated, is  
 23 that right?  
 24 A Yes, they are all -- all of the  
 25 entities have been consolidated, the claims

49 (Pages 190 to 193)

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Page 292

1 CHARLES P. MORRISON  
 2 were entered into between 1988 and January 1,  
 3 1996?  
 4 A Yes.  
 5 MR. FRIEDMAN: Objection.  
 6 MR. COGAN: Objection.  
 7 MR. RYAN: I think that may be  
 8 all I have. Let me just take a break  
 9 and review my notes.  
 10 THE VIDEOGRAPHER: Going off the  
 11 record at 5:55 p.m.  
 12 (At this point in the proceedings  
 13 there was a recess, after which the  
 14 deposition continued as follows:)  
 15 THE VIDEOGRAPHER: We are back on  
 16 the record at 5:58 p.m.  
 17 Q Mr. Morrison, we have been  
 18 discussing the professional fees paid out of  
 19 the bankruptcy that were, with fees and  
 20 expenses, have been a little over \$90 million  
 21 since the bankruptcy filing, right?  
 22 A Yes.  
 23 Q Is it correct that there have  
 24 been other costs of the bankruptcy  
 25 administration process that have been borne by

1 CHARLES P. MORRISON  
 2 record, and subject to those, I have  
 3 nothing further.  
 4 MR. COGAN: I have no questions.  
 5 THE VIDEOGRAPHER: This concludes  
 6 today's testimony of Charles P.  
 7 Morrison. The time on the record is  
 8 6:00 p.m. This also concludes tape  
 9 number 4.  
 10 \_\_\_\_\_  
 11 CHARLES P. MORRISON  
 12 Subscribed and sworn  
 13 to before me this \_\_\_\_\_  
 14 day of \_\_\_\_\_, 2004.  
 15 \_\_\_\_\_  
 16 Notary Public

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Page 293

1 CHARLES P. MORRISON  
 2 the Debtor estates?  
 3 A The costs of the bankruptcy  
 4 office itself, myself and the staff that  
 5 support the bankruptcy office, have been paid  
 6 from the estate as well, yes.  
 7 Q So that would involve the  
 8 payment for your time and the time of other  
 9 employees of the Chapter 11 Trustee's office?  
 10 A Yes.  
 11 Q As well as the fees of people  
 12 working on a contract basis?  
 13 A Yes.  
 14 Q The costs of leasing office  
 15 space in Pittsburgh?  
 16 A Yes.  
 17 Q And to identify those amounts,  
 18 would I go then to the monthly operating  
 19 reports filed with the court?  
 20 A Yes.  
 21 MR. RYAN: I have no further  
 22 questions at this time. Thank you very  
 23 much for your time, Mr. Morrison.  
 24 There were some outstanding items  
 25 that we spoke about previously on the

1 CHARLES P. MORRISON  
 2 EXHIBITS  
 3 EXHIBIT FOR IDENT.  
 4 2741 Subpoena 5  
 5 2742 Document entitled "First Status 14  
 6 Report of William J.  
 7 Scharffenberger, Chapter 11 Trustee  
 8 of Allegheny Health, Education &  
 9 Research Foundation for the Period  
 10 of December 10, 1998 through  
 11 January 31, 1999" 18  
 12 2743 Affidavit 23  
 13 2744 Document entitled "Report of Sale" 34  
 14 2745 Document on the letterhead of Tenet  
 15 addressed to the Board of Trustees  
 16 of AHERF dated July 30, 1998 41  
 17 2746 Monthly operating report for the  
 18 month ending November 30, 1998 49  
 19 2747 Document entitled "Affidavit of  
 20 Patrick M. Hurst" 50  
 21 2748 Document entitled "Motion to  
 22 Approve Indemnity Escrow Settlement  
 23 Agreement Pursuant to Section  
 24 105(a) of the Bankruptcy Code and  
 25 Bankruptcy Rule 9019(a) dated  
 December 9, 2002 78  
 2749 Proof of Claim filed by Allegheny  
 General Hospital 84  
 2750 Proof of Claim filed by Allegheny  
 University Medical Centers 89  
 2751 Order approving settlement 113  
 2752 Document headed "Allegheny Health,  
 Education & Research Foundation,  
 AHERF, Status Update and Review of  
 Liquidation Objectives" dated



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CHARLES P. MORRISON

## EXHIBITS

EXHIBIT	FOR IDENT.	
2753 Document headed "Allegheny Health, Education & Research Foundation, AHERF, Status Update and Review of Liquidation Objectives" dated May 13, 1999"		117
2754 Monthly operating report for the AHERF Debtors for June of 2000		121
2755 E-mail from Todd Kevles to Mr. Morrison from April 2000		136
2756 E-mail from Todd Kevles to Mr. Morrison from November 2000		138
2757 E-mail from Todd Kevles to Mr. Morrison from January 2001		
2758 Complaint filed by the Chapter 11 Trustee against Mellon Bank, Toronto Dominion, Bank One and Bank of Chicago		152
2759 Stipulation of settlement and order relating to settlement of preference action against Mellon Bank group		156
2760 Settlement agreement from January 2002 settling various AHERF related claims		158
2761 Complaint in lawsuit brought by the Official Committee of Unsecured Creditors against certain officers and trustees of AHERF		159
2762 Joint motion for approval of top insurer settlement agreement with attachments		173

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CHARLES P. MORRISON

## EXHIBITS

EXHIBIT	FOR IDENT.	
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CHARLES P. MORRISON

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CHARLES P. MORRISON

## CERTIFICATE

I, STEPHEN J. MOORE, a Shorthand Reporter and Notary Public of the State of New York, do hereby certify:

That, CHARLES P. MORRISON, the witness whose deposition is hereinbefore set forth was duly sworn, and that such deposition is a true record of the testimony given by such witness.

I further certify that I am not related to any of the parties to this action by blood or marriage; and that I am in no way interested in the outcome of this matter.

Stephen J. Moore, RPR, CRR

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CHARLES P. MORRISON  
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**Moyer Dep.**

MICHAEL W. MOYER

Page 1

IN THE UNITED STATES DISTRICT COURT FOR THE  
WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF )  
UNSECURED CREDITORS OF )  
ALLEGHENY HEALTH, EDUCATION & )  
RESEARCH FOUNDATION, )

Plaintiff, )

-vs- )

PRICewaterhouseCOOPERS, L.L.P. )

Defendant. )

Civil Action  
No. 00-684

VIDEOTAPE DEPOSITION OF: MICHAEL W. MOYER

DATE: November 15, 2002  
Friday, 9:00 a.m.

LOCATION: MANION McDONOUGH & LUCAS  
14th Floor, USX Tower  
Pittsburgh, PA 15219  
412-232-0200

TAKEN BY: Defendant

REPORTED BY: JoAnn M. Brown, RMR  
Notary Public  
AKF Reference No. JB72890

MICHAEL W. MOYER

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1 just identify the document?

2 A. It's basically a request for information so

3 that they could perform their audit for fiscal

4 year 1997, and it wanted certain pieces of

5 information and wanted it either in computer or

6 otherwise.

7 Q. Just to be clear, this is information you

8 received from John Lydon and Chuck Lisman at

9 the request from them to provide information to

10 Coopers?

11 A. Correct.

12 Q. In connection with the '97 audit, is that

13 right?

14 A. That's correct.

15 Q. Okay. You don't recollect receiving this?

16 A. Truthfully, it didn't jump into my mind. I do

17 not deny getting it, because I'm sure I did,

18 but since it would have been a standard --

19 nothing that jumps out that would have been odd

20 to me.

21 Q. Do you have any reason to believe that you

22 failed to provide --

23 A. Oh, I'm sure we provided all information that

24 was requested of us.

25 Q. Okay. Was that your standard practice?

1 you had with him about that, and I just wanted

2 to give you a chance.

3 A. I don't remember the entire conversation. I

4 know that it was not long. I'm sure that

5 probably in one of our one-on-one meetings that

6 we had occasionally, I asked him about the

7 recapture, I mean, just the philosophy that

8 they use since they had just done this at

9 Graduate Hospital as well, and the philosophy

10 that they use to come up with the numbers and

11 how they went about it. It was not a

12 confrontational meeting, because you did not do

13 that with David, it was just really, gee, I'd

14 like to understand what you did. It was

15 probably two or three minutes long, and that

16 was it.

17 Q. When is the first time that you learned that

18 AHERF was planning on acquiring the Graduate

19 hospitals?

20 A. I think that came up after we had started

21 discussions with AHERF about our own merger, if

22 I remember correctly, and I know it was a -- it

23 was a little bit of a concern, and I'm not sure

24 if I found out about it through the news or

25 whether I got word of it through Barry Roth who

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1 A. Our standard practice was -- and, truthfully,

2 had we not, I'm sure one of the managers would

3 have called me directly and said your people

4 are not providing information, and we did not

5 get a call. So, I'm sure when we received

6 this, that I just turned it over to those

7 people that would have provided the information

8 and moved on. Because, truthfully, looking at

9 the things that they've asked for, almost

10 everything that they ask for was information

11 that would have come from the accounting

12 people. None of them worked for me at this

13 point in time, okay, which is another reason

14 for me not necessarily to remember, because

15 even though I was on the distribution list, I'm

16 not sure that any of this information was under

17 my control any longer, and the people who did

18 control it were also on the distribution list,

19 so --

20 Q. I know you mentioned earlier that you may have

21 had a discussion with David McConnell about

22 recapture?

23 A. Correct.

24 Q. And I'm not sure if I understood earlier that

25 you had told us about the entire conversation

1 would have gotten word of it from Sherif

2 himself.

3 Q. Why was it of concern?

4 A. Were they biting off more than they could chew

5 kind of thing all at once to do the Graduate,

6 which was not a small system, and then at the

7 same time to be talking about Forbes and

8 Allegheny Valley, Canonsburg. This was just a

9 lot to do even for a huge staff that they had.

10 Q. You mentioned that prior to AHERF's acquisition

11 of Forbes, you had reviewed materials about

12 AHERF that gave no indication that there was a

13 cash crunch I think is what you called it.

14 What did you review that helped you arrive at

15 that conclusion?

16 A. We reviewed the audited financial statements

17 from the previous year end.

18 Q. Which would have been?

19 A. Which would have been -- let's see. When did

20 we do this? We did this in '96, right, because

21 the merger was effective January 1, '97? So we

22 were in '96. So we probably were using '95

23 year end, because we were doing this before

24 their audited financials would have been

25 complete for '96, so it's my guess that we were

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MICHAEL W. MOYER

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1 looking at the year before, '95, and we  
 2 probably -- although I don't remember at the  
 3 moment, but I would think that we also had some  
 4 interim internal financial statements from them  
 5 as well that maybe took us through half year,  
 6 through January, but those would have been  
 7 unaudited statements.

8 Q. Was there anything else that you would have  
 9 reviewed other than those two items?

10 A. I do not remember getting cash flow information  
 11 from them, but, again, that's so long ago. I  
 12 know we did not get a huge amount of  
 13 information from them, but we did at least have  
 14 some financial statement information, and  
 15 several years' worth, that we analyzed before  
 16 moving ahead.

17 Q. Why didn't you think that David McConnell was a  
 18 truthful person?

19 A. My association with Mr. McConnell goes back to  
 20 1980 when he applied to me for a job and I  
 21 didn't hire him. I thought his background in  
 22 accounting was weak, personal view, and the  
 23 slipshod way that they ran their accounting  
 24 department which became apparent after the  
 25 merger. We really had no knowledge of that

1 liked to live my life, so they were rumors, and  
 2 so I tend not to like to repeat rumors too  
 3 much, but I just didn't trust him.

4 Q. When you were at Forbes and you had  
 5 responsibility for creating what you've called  
 6 CRA reserves --

7 A. Yes.

8 Q. -- what was your objective when you would  
 9 create those reserves?

10 A. Okay. A little history. The year before I  
 11 went to Forbes, they had a loss from  
 12 operations, and one of the reasons that they  
 13 had a loss from operations was they settled a  
 14 prior year's cost report and they did not have  
 15 it properly reserved, so they had to pay back  
 16 some money that the government had paid them --  
 17 or Blue Cross, I don't remember -- and then  
 18 they had to take that all through the current  
 19 year which created a loss, which at the time  
 20 was only a couple hundred thousand dollars, but  
 21 for a hospital like in '78, '79, those were big  
 22 dollars. The board was very upset, one of the  
 23 reasons I got hired.

24 My objective from day one at Forbes,  
 25 and my personal philosophy in finance

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1 prior to the merger. I just didn't find -- I  
 2 found it easy when you have a slipshod  
 3 operation to shade the truth in the direction  
 4 that you want the truth to go, and it was just  
 5 my personal view that I did not think that they  
 6 ran a very tight ship. I didn't think that  
 7 their accounting controls were very good.  
 8 Certainly, the information that they provided  
 9 to their managers was not very good in  
 10 comparison to what we did at Forbes, and I just  
 11 did not think that he was always being  
 12 truthful.

13 Q. I guess it's one thing to have a slipshod  
 14 department, but it's probably another thing to  
 15 be untruthful. Is there something other than  
 16 that?

17 I don't think I'm asking a good  
 18 question, but what I'm trying to understand is  
 19 was there something other than the nature of  
 20 the accounting department that operated at  
 21 AHERF that allowed -- or helped you arrive at  
 22 the conclusion that McConnell was not to be  
 23 trusted?

24 A. Let's say the rumors that I heard about him and  
 25 the conduct of his life did not match the way I

1 accounting, is to be conservative. So, we at  
 2 Forbes always took the conservative role. I  
 3 always underbooked revenue. I would always  
 4 reserve on the bad side to make sure that when  
 5 it happened, I was going to have a happy  
 6 surprise for the board and not a bad surprise  
 7 for the board, and I think in all of my years  
 8 at Forbes, we only had one bad surprise. We  
 9 were very conservative in booking what we  
 10 thought people owed us as settlements so we  
 11 would end up with reserves that were reserves  
 12 that were really, you know, going to help us at  
 13 the end, because when we actually got the  
 14 settlement, we would end up with more money  
 15 than what we thought we said we were going to  
 16 get.

17 Q. Were you bound by any requirements to make sure  
 18 that you did not -- were not overly  
 19 conservative?

20 A. Yes.

21 Q. What were those requirements?

22 A. Well, obviously, again, the auditors are  
 23 concerned that we not misstate in either  
 24 direction, not overstate income or understate  
 25 income to any great degree, but most auditing

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MICHAEL W. MOYER

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1 firms are also going -- if you're going to make  
2 a mistake, they would rather you made the  
3 mistake of being more conservative rather than  
4 less conservative has been my experience over  
5 the years.

6 Q. Why do you think that is?

7 A. Well, because they would rather report that  
8 your income was less than it was and be  
9 surprised to the good in the future as well.  
10 They don't want people thinking that you are  
11 doing better than you are.

12 Q. People who might be relying on the financial  
13 statements?

14 A. Which in our case was bondholders and bankers.  
15 I mean, we had no stockholders, so those were  
16 our two constituencies that we needed to make  
17 sure that the statements were accurate for.

18 Q. If you were to transfer reserves, CRA reserves  
19 that had been established to another account,  
20 for instance -- is there any reason why you  
21 would not transfer reserves that you had  
22 established, CRA reserves, to another account?

23 A. Well, we go back to the same question as  
24 earlier. I don't know why anyone would ever  
25 transfer a CRA account. It's specific to the

1 the reserve. That was Barb Johnson's job. She  
2 is the expert in reimbursement, one of the best  
3 in town. So that was her job to come up with  
4 the number and then convince me that it was  
5 right. It did not take a lot of convincing.  
6 She was the expert and I wasn't. But I know  
7 our philosophy over 20 years, and our  
8 philosophy was we are going to be conservative  
9 in our reserves. So I'm sure that our CRA  
10 reserve was conservative. I have no doubts in  
11 my mind that it wasn't.

12 Q. When did you learn that AHERF would be using a  
13 consolidated financial statement for '97 -- for  
14 its '97 financial statements?

15 A. Probably not until late, but that was not a  
16 surprise to me. I had assumed all along that  
17 they would consolidate and use one statement.  
18 We hadn't discussed it, so I didn't know for  
19 sure until later in the process, but I just  
20 assumed that that would be the case.

21 Q. Did you have an opinion about the decision to  
22 move to a consolidated financial statement?

23 A. No, I didn't have an opinion one way or  
24 another.

25 MR. TAMBURRI: Let's go off the

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1 hospital, and it's specific to what happened at  
2 that hospital. So there may be occasion, and  
3 I'm not just seeing it being a rather  
4 short-sighted person sometimes, as to why one  
5 might want to transfer a reserve from one body  
6 to another body, but at the moment, I can't --  
7 in my own mind, I can't see why anyone would do  
8 that.

9 Q. Is the risk of doing that that if a reserve was  
10 properly recorded -- let me step back.

11 If a risk -- if a reserve was  
12 properly recorded for, and I'm specifically  
13 talking about a CRA reserve, would the risk be  
14 that if you transferred that reserve to another  
15 account, you have essentially underreserved a  
16 potential exposure?

17 A. Well, there's always the risk that we had  
18 underreserved and that we were going to then  
19 collect less than we said or that we were going  
20 to owe more than we said, whichever, both of  
21 those would be an underreserve, but I know in  
22 the case of Forbes, we did not underreserve.  
23 It was not our practice to underreserve. It  
24 was not our philosophy of the people who were  
25 determining -- I personally did not determine

1 record. I'm going to take a look at my notes,  
2 but I think I'm about there.

3 THE VIDEOGRAPHER: We're going off  
4 the record. The time indicated on the screen  
5 is 3:25 p.m.

6 ----  
7 (There was a recess in the proceedings.)  
8 ----

9 THE VIDEOGRAPHER: Back on the  
10 record. The time indicated is 3:31 p.m.

11 BY MR. TAMBURRI:

12 Q. Almost done, Mr. Moyer.

13 How many years in your career at  
14 Forbes did you spend having some interaction or  
15 responsibility for interacting with either the  
16 bond-issuing authority or bondholders of  
17 Forbes?

18 A. I think my interaction with the bond authority  
19 started almost immediately after I started with  
20 the organization, so, truthfully, since like  
21 1980. Even though it was not my direct  
22 responsibility the first year or two, I  
23 attended most of the meetings with the then  
24 vice president of finance whose responsibility  
25 it was, and in some cases just went to the

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